



National State Auditors Association

Office of the State Auditor
State of North Dakota
Report on the System of Quality Control
and Letter of Comments
For the period April 1, 2010
Through March 31, 2011



National State Auditors Association

June 10, 2011

Mr. Robert R. Peterson
State Auditor
State Capital Building
600 East Boulevard
Bismarck, North Dakota 58505

Dear Mr. Peterson:

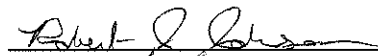

We have reviewed the system of quality control of North Dakota Office of the State Auditor in effect for the period April 1, 2010 through March 31, 2011. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of North Dakota Office of the State Auditor in effect for the period April 1, 2010 through March 31, 2011 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

As is customary in a peer review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.


Team Leader
National State Auditors Association
External Peer Review Team

Concurring Reviewer
National State Auditors Association
External Peer Review Team



National State Auditors Association

June 10, 2011

Mr. Robert R. Peterson
State Auditor
State Capitol Building
600 East Boulevard
Bismarck, North Dakota 58505

Dear Mr. Peterson:

We have reviewed the system of quality control of the North Dakota Office of the State Auditor in effect for the period April 1, 2010 through March 31, 2011 and have issued our report thereon dated June 10, 2011. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Fieldwork Standards for Financial Audits

Comment – The Division of Local Government Audit regularly prepares draft financial statements and notes in addition to performing the financial statement audit. This practice is allowable under GAGAS standards so long as management is able to take responsibility for the financial statements and certain other safeguards are in place. For some of the engagements reviewed from the Division of Local Government Audit, the auditor reported significant deficiencies in controls over financial reporting that may cast doubt on management's ability to take responsibility for the statements. Furthermore, audit documentation did not include consideration of the nonaudit services, including conclusions about the impact on independence.

Recommendation – We recommend the North Dakota Office of the State Auditor document its consideration of nonaudit services, including the effect of any reportable deficiencies in internal control over financial reporting, and conclusions about the impact on independence. Alternatively, the North Dakota Office of the State Auditor may discontinue providing nonaudit services under these circumstances.

North Dakota Office of the State Auditor's Response - We agree. The Office will implement policies to document our evaluation and independence considerations including when we are providing nonaudit services.

Comment – OMB Circular A-133 requires auditors to obtain an understanding and test internal controls over federal programs sufficient to support a low assessed level of control risk for major programs. For engagements reviewed from the Division of Local Government Audit, audit documentation did not contain tests of controls for all direct and material compliance requirements.

Recommendation – When performing Single Audits, the North Dakota Office of the State Auditor should ensure controls for all direct and material compliance requirements are tested sufficiently in order to support a low assessed level of control risk.

North Dakota Office of the State Auditor's Response - We agree. The Division of Local Government Audit has recently completed additional Single Audit training and we will implement policies and procedures to ensure the required Single Audit internal control work is performed.

Comment – AICPA standards require the auditor to obtain an understanding of internal control by evaluating the design of controls and determining whether they have been implemented. For engagements reviewed from the Division of Local Government Audit, documentation did not consistently include the auditor's determination of whether controls had been implemented.

Recommendation – The North Dakota Office of the State Auditor should ensure that auditors determine whether relevant controls have been implemented.

North Dakota Office of the State Auditor's Response - We agree. The Office of the State Auditor will make the changes necessary to ensure the Division of Local Government Audit performs the required internal control work.

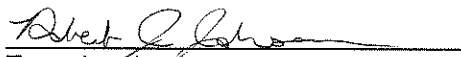
Comment – GAGAS and AICPA standards require that an auditor's report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion. Our review identified instances in which attorney letters were obtained or the workpapers were reviewed subsequent to the date of the report. In addition, our review identified instances in which attorney letter and management representations were obtained substantially prior to the report date without documentation of updated representations.

Recommendation – The North Dakota Office of the State Auditor should ensure that audit reports are dated and evidence obtained in accordance with GAGAS and AICPA standards.

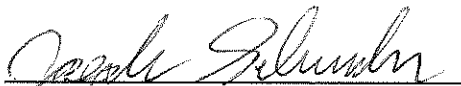
North Dakota Office of the State Auditor's Response - We agree. The Office of the State Auditor will reinforce training and emphasize the importance of proper dating of audit reports.

In the attached correspondence dated June 10, 2011, the North Dakota Office of the State Auditor provided its response to the Letter of Comments recommendation(s).

Respectfully submitted,



Team Leader
National State Auditors Association
External Peer Review Team



Concurring Reviewer
National State Auditors Association
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